

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **ChoiceOne Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 26, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated **Satisfactory**.

ChoiceOne Bank's performance is deemed to be satisfactory based on the following factors: a consistently high loan-to-deposit ratio, the majority of its originations are from within the assessment area, a strong performance of lending to businesses and farms of different sizes as well as consumers of all income levels and a reasonable geographic distribution of loans within the assessment area.

The following table indicates the performance level of **ChoiceOne Bank, Sparta, Michigan** with respect to each of the five performance criteria:

SMALL INSTITUTION ASSESSMENT CRITERIA	(NAME OF FINANCIAL INSTITUTION) PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the previous examination.		

DESCRIPTION OF INSTITUTION

ChoiceOne Bank, formerly Sparta State Bank, with total assets of \$122 million as of June 30, 1996, is a subsidiary of 1st Community Bancorp, Inc., Sparta, Michigan, a one bank holding company. The bank provides traditional deposit and loan services to the assessment area through its main office in Sparta and its full service branches in Cedar Springs, Grand Rapids and Sparta.

The bank's major competitors include Rogue River Community Credit Union, Kent City State Bank, and Independent Bank-West Michigan. Bank management indicated that Rogue River Community Credit Union provides the most competition for depositors due to its free checking accounts. Despite the bank's proximity to Grand Rapids, management asserts that large banks do not provide substantial competition.

DESCRIPTION OF ASSESSMENT AREA

The bank is located in Sparta, Michigan, approximately 20 miles northeast of Grand Rapids, Michigan. The bank had defined its community as the area within a 12 mile radius of the bank including the communities of Kent City, Rockford, Cedar Springs, and Conklin. On July 10, 1996, the delineation was revised to comply with the requirements of the revised CRA regulation, to include 37 census tracts in Kent County, two tracts in Muskegon County, three tracts in Ottawa County, all within the Grand Rapids MSA; three block numbering areas (BNAs) in Newaygo County and one BNA in Montcalm County are also included. Communities within the bank's assessment area comprise the following: Bailey, Casnovia, Cedar Springs, Comstock Park, Conklin, Coopersville, Ensley Center, Grand Rapids, Grant, Kent City, Maple Valley, Pierson, Ravenna, Rockford, Sand Lake and Sparta.

The median family income of the assessment area is \$36,632, which is consistent with the MSA median family income of \$36,722. The total population of the assessment area is 206,418, of which 95.1% are White, 2.0% African American, 1.7% are of Hispanic origin, 0.6% are Native American and 0.6% are Asian.

The assessment area contains two low- income census tracts, both in Grand Rapids and four moderate-income census tracts, three of which are in Grand Rapids, with the fourth in Cedar Springs. The population in the two low-income tracts is 5,541, while the population in the moderate-income tracts is 15,784, which represents 2.68% and 7.65%, respectively of the assessment area's total population. All four BNAs in the assessment area are classified as middle-income tracts.

There are 77,851 households in the assessment area, of which 55,205 or 70.9% are owner-occupied. The median housing value in the assessment area is \$64,616, with a median age of 29 years..

The area has a number of small industries which provide employment for community members;

they include the following:

<u>EMPLOYER</u>	<u># OF EMPLOYEES</u>	<u>PRODUCT/SERVICE</u>
Wolverine Worldwide, Inc.	1,200	Boots
Rochester Products - Division of General Motors	950	Motor Vehicle Parts
Grand Rapids Controls, Inc.	380	Motor Vehicle Parts
Tesa Tuck, Inc.	246	Industrial Supplies
Leigh Division Harrow Products	225	Metal Products
A E Goetze-Sparta	200	Gray & Ductile Iron
Hiram/Elemex Corp.	180	Electronic Components
Production Aluminum Co.	175	Aluminum Foundry
Briggs & Stratton Corp.	150	Foundries
Pak-Sak Industries	140	Plastic Film & Sheet
Marquette Fabricators, Inc.	125	Structural Wood
National Fruit Product Co.	124	Canned Fruits & Vegetables

According to the Michigan Employment Security Commission, the July, 1996 unemployment rate for Sparta was 3.1% and for the Grand Rapids MSA was 3.8%, both of which compare favorably with the State of Michigan and national unemployment figures of 4.2% and 5.1%, respectively.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank was examined for compliance with fair lending laws and regulations. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

Loan-to-Deposit Ratio

A review of the consolidated reports of condition from March 31, 1995, through June 30, 1996, revealed that the bank had a six-quarter average net loan-to-deposit ratio of 85.72%, with the June 30, 1996 call report indicating a loan-to-deposit ratio of 95.63%. During this period, net loans increased \$22.8 million, or 32.15% from \$70.8 million to \$93.6 million, while deposits increased \$6.5 million, or 7.17% from \$91.3 million to \$97.8 million.

A review of the most recent Uniform Bank Performance Report (UBPR) dated June 30, 1996, revealed the bank's net loan-to-deposit ratio was 94.35%, compared to a peer group ratio of 69.57%. The bank's loan-to-deposit ratio exceeds the standards for a satisfactory performance; nevertheless, this assessment of the bank's performance in no way minimizes the importance of the maintenance of sufficient acceptable reserves to meet liquidity requirements.

Lending in Assessment Area

A review of the loan sample revealed the following geographic distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL DELINEATED COMMUNITY	PERCENT OF TOTAL
Real Estate Mortgages	14	11	78.57
Home Equity closed- end	20	15	75.00
Direct Installment	20	14	70.00
Indirect Installment	23	11	47.83
Single Payment	14	11	78.57
Open-end Loans	33	26	78.79
Commercial Loans	10	10	100.00
Grand Totals	120	87	72.50

As the preceding chart illustrates, 72.50% of all loans sampled for the month of July 1996 were within the bank's assessment area; the percentage increases to 78.35%, when indirect originations are excluded.

A further review of all real estate, installment, commercial, and agricultural loans for the six month period from January 1, 1996 through June 30, 1996 was reviewed to determine the bank's level of lending within the assessment area. The results of this review are noted in the following

chart:

LOAN TYPE	UNIVERSE		WITHIN ASSESSMENT AREA		% IN ASSESSMENT AREA	
	#	\$	#	\$	#	\$
Commercial	189	8,804,185	133	5,977,234	70.4	67.9
Agricultural	48	1,710,303	39	1,440,555	81.3	84.2
Mortgage	143	11,730,650	111	8,709,500	77.6	74.2
Installment	1,069	10,780,580	701	6,449,607	65.6	59.8
Total	1,449	33,025,718	984	22,576,896	67.9	68.4

As the preceding chart illustrates, 67.9% of the total number, and 68.4% of the total dollar amount of loans were made within the assessment area.

Over the past two years, a large portion of the bank's total loan volume was generated within the bank's community. In 1995, 194 originations were generated in the bank's assessment area, representing 78.54% of all originations reported by the bank in 1995. In 1994, 189 originations were generated within the bank's assessment area, representing 77.78% of all originations reported by the bank in 1994.

The bank's lending meets the requirements for satisfactory performance; it is evident that the bank is focussing its lending efforts within its assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

All commercial and agricultural originations for the six-month period ending June 30, 1996 were reviewed to determine the bank's performance in lending to businesses and farms of different sizes. Small farm loans are those with original amounts of \$500,000 or less, and small business loans are those with original amounts of \$1,000,000 or less. The following chart illustrates the bank's level of small business and small farm lending:

SMALL FARM/ SMALL BUSINESS LOAN AMOUNT ANALYSIS				
	SMALL FARM		SMALL BUSINESS	
LOAN AMOUNTS	#	%	#	%
\$50,000 or less	41	85.42	141	74.60
\$50,001- \$100,000	4	8.33	31	16.40
\$100,001 - \$250,000	2	4.17	11	5.82
\$250,001 - \$500,000	1	2.08	5	2.65
\$500,001 - \$1,000,000	0	N/A	1	0.53
Totals	48	100.00	189	100.00

The preceding chart indicates that all of the bank's commercial and agricultural loans during the six month sample period were classified as small business and small farm. This evidences the bank's commitment to the credit needs of small farm and small business owners.

A review of 1994 and 1995 mortgage loan originations subject to the Home Mortgage Disclosure Act (HMDA) and within the bank's community at that time, indicate that 40.10% of all originations in 1995 and 41.27% in 1994 were to low- and moderate-income individuals.

The loan amount as a proxy for annual income was also used, to augment the HMDA analysis. The bank's mortgage loan activity from January 1, 1996 through June 30, 1996 is as follows:

MORTGAGE LOAN AMOUNT ANALYSIS		
LOAN AMOUNTS	NUMBER	%TOTAL
\$15,000 or less	2	1.4
\$15,001 - \$25,000	2	1.4
\$25,001 - \$40,000	18	12.59
\$40,001 - \$60,000	33	23.08
\$60,001 - \$100,000	54	37.76
\$100,001 or more	34	23.78
TOTAL	143	100.00

The preceding chart shows that the bank is making small mortgage loans in amounts consistent with the credit needs of low- and moderate-income homeowners.

Overall, the bank exceeds the standards for a satisfactory performance based on the bank's lending to small farm and small business owners, and to homeowners.

Geographic Distribution of Loans

An analysis of the bank's HMDA-reportable loans indicates that there were 29 census tracts within the bank's assessment area for both years, 1994 and 1995, of which only one was a moderate-income tract at that time. Lending within this tract represents 5.00% of the bank's total activity in 1995 and 4.55% in 1994; there were four originations in this tract for 1995, with six originations in 1994.

The bank's 1995 originations within this tract represents 2.06% of total originations, compared to 2.78% for the market aggregate; the bank's 1994 level was 3.17%, consistent with the aggregate level of 3.36% of total originations.

The following chart represents the geographic distribution of loans made within the assessment area for the six-month period from January 1, 1996 through June 30, 1996, by type:

County/Census Tracts	Mortgages	Indirect	Direct	Commercial	Agricultural	Totals
Kent County						
1.00	1	2	3	1		7
2.00						0
3.00	1			2		3
4.00		1	3			4
5.00		1				1
7.00	1	2	1			4
8.00		3		3		6
9.00		2	2	1		5
10.00	1	1				2
11.01		2				2
11.02		1				1
12.00						0
13.00		1				1
14.00		2		2		4
15.00		3		1		4
16.00		2	1			3
101.00	3	12	19		2	36
102.00		8	13			21
103.01	11	19	52	6	1	89
103.02	6	12	31	1	1	51
104.00	30	39	163	44	4	280
106.00	7	13	47	17	1	85
107.00	1	11	8	1		21
108.01	3	3	7	3		16
108.02		3	3			6
109.01	3	3	8	3		17
110.00	3	3				6
111.00	3	7	7	4	2	23
112.00		2	2	1		5
113.01		2	3	2		7
113.02	2	3	1			6
114.01	8	8	16	15	7	54
114.02	3	15	5	6	1	30
115.00		4	1	2		7
118.01		2	1			3
118.02	3	1				4

119.01						0
County/Census Tract	Mortgages	Indirect	Direct	Commercial	Agricultural	Totals
Newaygo						
9710.00	1	5	5		3	14
9711.00	4	5	5	4		18
9712.00		13	3	5		21
Montcalm						
9806.00	2	4	4	1		11
Muskegon						
29.00					3	3
30.00	9	16	25	2	2	54
Ottawa						
201.00	5	6	20	6	12	49
202.00		1				1
203.00						0
TOTALS	21	50	62	18	20	171

The preceding chart illustrates that the bank is making loans in all but four census tracts (2.00, 12.00, 119.01 and 203.00). All low- and moderate-income census tracts (8.00, 13.00, 14.00, 15.00, 16.00 and 102.00) had lending activity; lending does tend to be concentrated in and around the areas where the bank has facilities.

The bank's lending penetration is reasonable within its assessment area, and there are no conspicuous lending gaps. The bank's geographic distribution is considered reasonable and meets the standards for a satisfactory performance.

Response to Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.